

This is the translation of a document originally issued in Polish

MANAGEMENT’S DISCUSSION AND ANALYSIS OF Q3 2014 CONSOLIDATED FINANCIAL RESULTS

GRUPA LOTOS S.A.

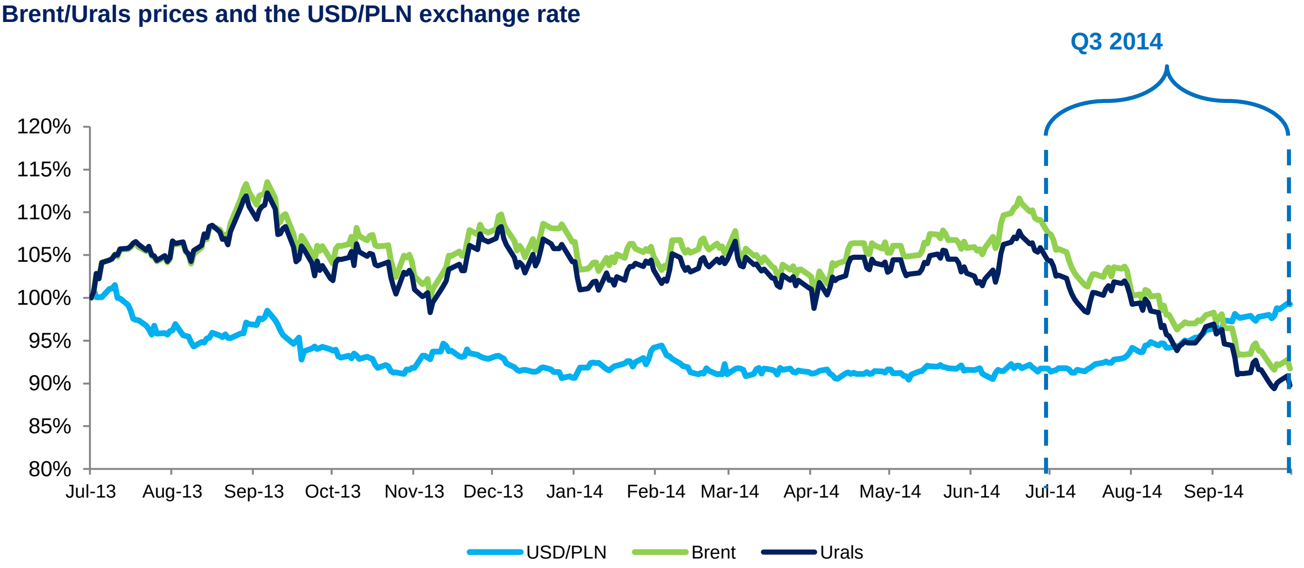
ISIN	Stock Exchange	Thomson Reuters	Bloomberg
PLLOTOS00025	LTS	LTOS.WA	LTS PW

An excel file with the operational and financial data for Q3 2014 and the previous reporting periods is published together with the Q3 2014 report in the Investor Relations section of our website as “databook”.

1 Market environment

- **Market prices of crude oil down by over 7% in Q3 2014 both year on year and quarter on quarter**
- **US dollar gaining value against the złoty as at the end of Q3 (+8.2% quarter on quarter and +5.8% year on year)**

Brent/Urals prices and the USD/PLN exchange rate



Source: The Company's in-house analysis based on Thomson Reuters data.

Brent crude prices, Brent/Urals spread and Grupa LOTOS S.A.'s model refining margin

USD/bbl	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
DATED Brent FOB prices	**102.02**	109.69	110.19	-7.0%	-7.4%
Brent-Urals differential	**1.79**	2.22	0.15	-19.4%	1,093.3%
Model refining margin	**6.97**	4.97	4.32	40.2%	61.3%

Source: The Company's in-house analysis based on Thomson Reuters data.

Product cracks*

USD/bbl	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
Gasoline	**17.04**	15.14	11.26	12.5%	51.3%
Naphtha	**-1.12**	-1.91	-8.41	41.4%	86.7%
Jet fuel	**18.68**	18.04	18.12	3.5%	3.1%
Diesel oil (10 ppm)	**16.30**	14.76	14.93	10.4%	9.2%
Light fuel oil	**18.40**	15.32	15.83	20.1%	16.2%
Heavy fuel oil	**-12.19**	-16.25	-16.36	25.0%	25.5%

** Product crack is calculated as the difference between the price per barrel of a given product (price per tonne /appropriate density factor) and the price of Urals crude (the Brent crude price adjusted for the Brent/Urals spread) Source: Thomson Reuters.*

Exchange rates

USD/PLN	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2013	Q3 2014 /Q3 2013
PLN/USD exchange rate at end of period	**3.30**	3.05	3.12	8.2%	5.8%
Average PLN/USD exchange rate during quarter	**3.15**	3.04	3.21	2.0%	-3.4%

Source: The Company's in-house analysis based on Thomson Reuters data.

Factors driving the LOTOS Group's performance in Q3 2014 included:

Raw materials and products:

- a downward trend in market prices of crude oil in Q3 2014 had a negative effect on the operating results due to the weighted average inventory valuation method applied,
- stronger model margin of Grupa LOTOS, achieved mainly thanks to sharp oil price declines and favourable trends in market prices of petroleum products,
- Brent/Urals differential at USD 1,79/bbl, benefiting the Gdańsk refinery, which uses Urals crude as its core raw material.

Exchange rates:

- the US dollar gaining value against PLN in Q3 2014 resulting in foreign exchange losses from operating activities of PLN 26.3m.

2 Upstream segment

- **Agreements signed for the financing of development of the B8 oil field in the Baltic Sea**
- **Certificate obtained from the Petroleum Safety Authority Norway extending the life of the Heimdal Platform on the Norwegian Continental Shelf until 2034**

Crude oil and natural gas reserves, production and sales

Crude oil and natural gas reserves as at (mboe)*	Sep 30 2014	Jun 30 2014	Sep 30 2013		
Norway	**5.44**	18.61	13.33		
Poland	**37.80**	40.92	34.49		
Lithuania:	**7.76**	7.26	7.65		
Total	**51.00**	66.79	55.47		
Production (boe/d)**	**Q3 2014**	**Q2 2014**	**Q3 2013**	**Q3 2014 /Q2 2014**	**Q3 2014 /Q3 2013**
Norway	**7,426**	7,141	0	**4.0%**	**-**
Poland	**3,844**	3,802	3,340	**1.1%**	**15.1%**
Lithuania:	**1,446**	1,434	1,475	**0.8%**	**-2.0%**
Total	**12,716**	12,377	4,815	**2.7%**	**164.1%**
Production (boe)	**Q3 2014**	**Q2 2014**	**Q3 2013**	**Q3 2014 /Q2 2014**	**Q3 2014 /Q3 2013**
Norway	**471,508**	220,662	0	**113.7%**	**-**
Poland	**353,657**	346,014	294,981	**2.2%**	**19.9%**
Lithuania:	**132,865**	130,481	141,900	**1.8%**	**-6.4%**
Total	**958,030**	697,157	436,881	**37.4%**	**119.3%**
Sales of own products (boe)	**Q3 2014**	**Q2 2014**	**Q3 2013**	**Q3 2014 /Q2 2014**	**Q3 2014 /Q3 2013**
Norway	**393,844**	246,819	0	**59.6%**	**-**
Poland	**294,650**	498,987	240,364	**-41.0%**	**22.6%**
Lithuania:	**122,536**	118,822	167,653	**3.1%**	**-26.9%**
Total	**811,030**	864,628	408,017	**-6.2%**	**98.8%**

** 2P – proved and probable reserves.*
*** Production includes only the days on which the mechanical production infrastructure was available*

The Group's proved and probable reserves (2P) under the SPE-PRMS classification available for production as at September 30th 2014 were reassessed as part of resource audits carried out in Q3 2014 by Miller & Lens Ltd (M&L) and AGR, which accounted for prior production, production forecasts and planned work on the fields in Poland, Norway and Lithuania.

The audit confirmed the Group's estimate of 2P reserves in Poland and Lithuania, with slight differences attributable chiefly to rounding. On the other hand, data on the Norwegian recoverable resources (Vale, Alta and Skirne fields) and contingent resources from areas for development (Yme, Frigg Gamma Delta, Fulla, Rind, Trell and Tir) was revised. The decrease in 2P reserves follows from reclassification of the Yme field reserves.

Reclassification of Yme assets from production reserves to contingent resources is related to the protracted process of choosing the field development concept and ongoing analyses of different development scenarios, including a scenario to abandon the Yme field.

LOTOS Petrobaltic S.A. (LPB)

In Q3 2014, LOTOS Petrobaltic continued crude production from the B3 field.

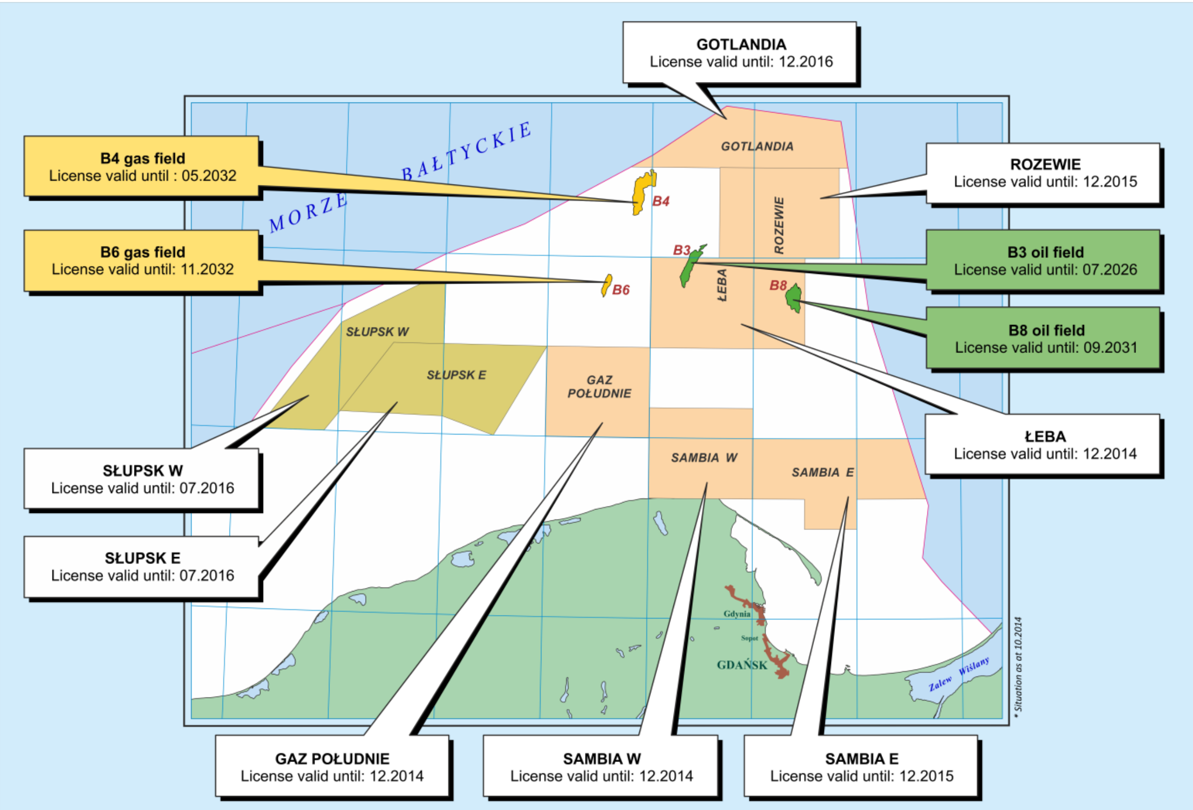
The company filed an application with the Ministry of the Environment for an onshore oil and gas exploration and appraisal licence within the Młynary area, together with the related plan of geological operations, as well as applications for amending the terms of the **Sambia E** (expansion of the licence scope), **Łeba** (two-year extension of the licence term) and **Gaz Południe** (18-month extension of the licence term) licences.

On August 25th 2014, B8 Sp. z o.o. Baltic spółka komandytowo-akcyjna (SPV B8), an subsidiary owned indirectly (through LOTOS Petrobaltic) by Grupa LOTOS S.A., and Polskie Inwestycje Rozwojowe S.A., Bank Gospodarstwa Krajowego and Bank Pekao S.A. entered into a series of agreements related to the project financing of the development of the B8 oil field in the Baltic Sea (for more information, see Current Report No. 17/2014).

On September 1st 2014, the Minister of the Environment issued a decision to transfer the licence for production of crude oil and associated natural gas from the B8 field located in the Polish economic zone of the Baltic Sea from LOTOS Petrobaltic to SPV B8.On October 7th 2014, the court registered an increase in the share capital of SPV B8 through an issue of new shares, effected after LOTOS Petrobaltic made a series of capital contributions to SPV B8, including in the form of the right to use geological information related to the B8 field, assets produced by LOTOS Petrobaltic in preparation for the development of the B8 field, and the Petrobaltic drilling rig.

In August, LOTOS Petrobaltic completed drilling the B21-2 appraisal well in the **Gaz Południe** licence area.

LOTOS Petrobaltic licences



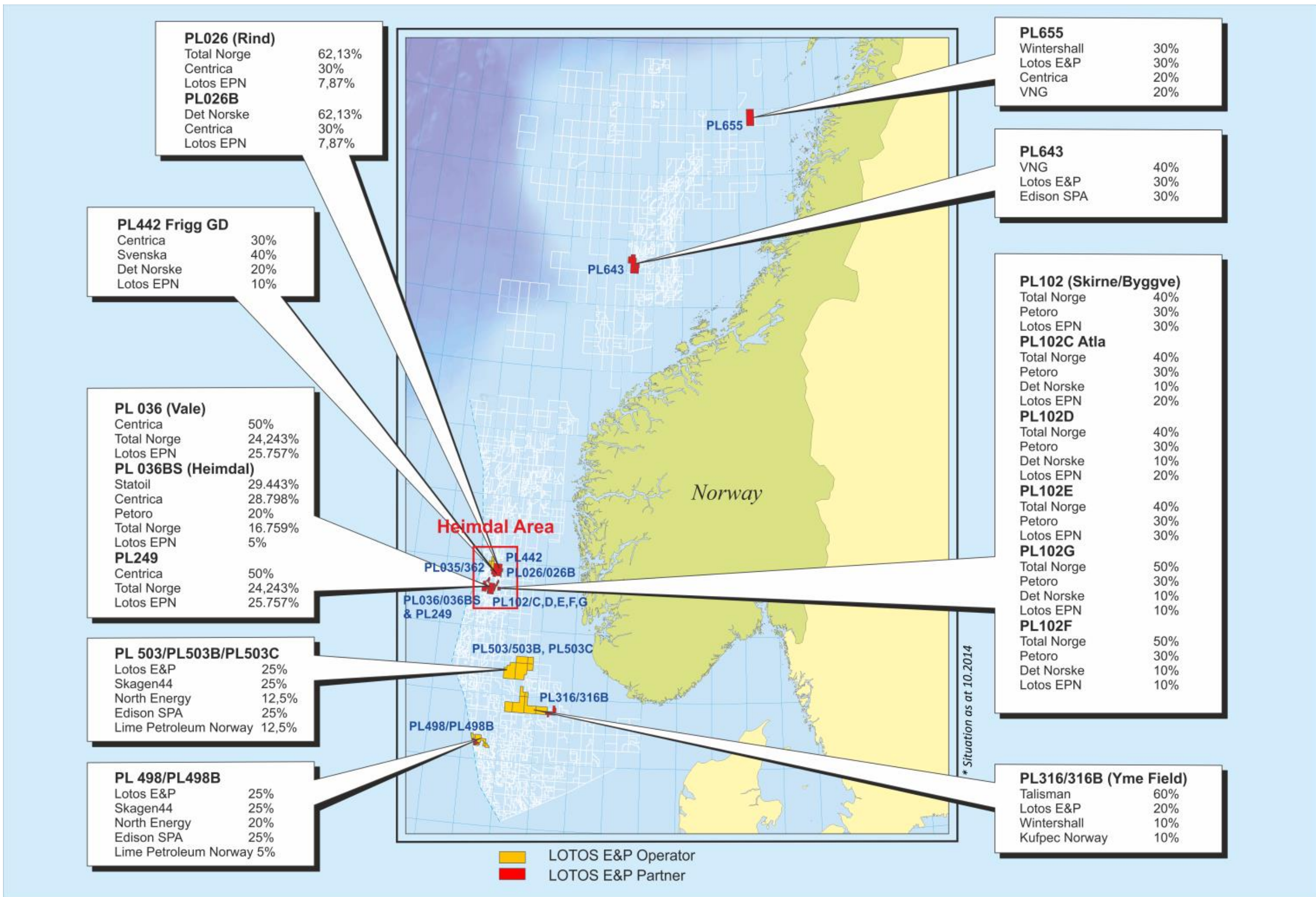
Source: LOTOS Petrobaltic in-house analysis

LOTOS Exploration & Production Norge AS (LEPN)

In Q3 2014, LEPN, operating in a consortium, continued to produce gas and condensate from the Heimdal fields (Alta, Vale, and Skirne). Following completion of the overhaul of the Heimdal platform in June (Heimdal Extension Life Program or HELP), the life of the platform has been extended until 2034, as confirmed by the Petroleum Safety Authority Norway (PSA) in a relevant certificate.

LEPN holds a 20% interest in the PL316/316B licence (YME). In Q3 2014, the operator Talisman Energy of Canada reviewed the concepts for further development of the field. LEPN, together with its consortium partners, continued work to remove the defective production platform from the field. The work was progressing according to schedule.

LOTOS Exploration & Production Norge AS licences

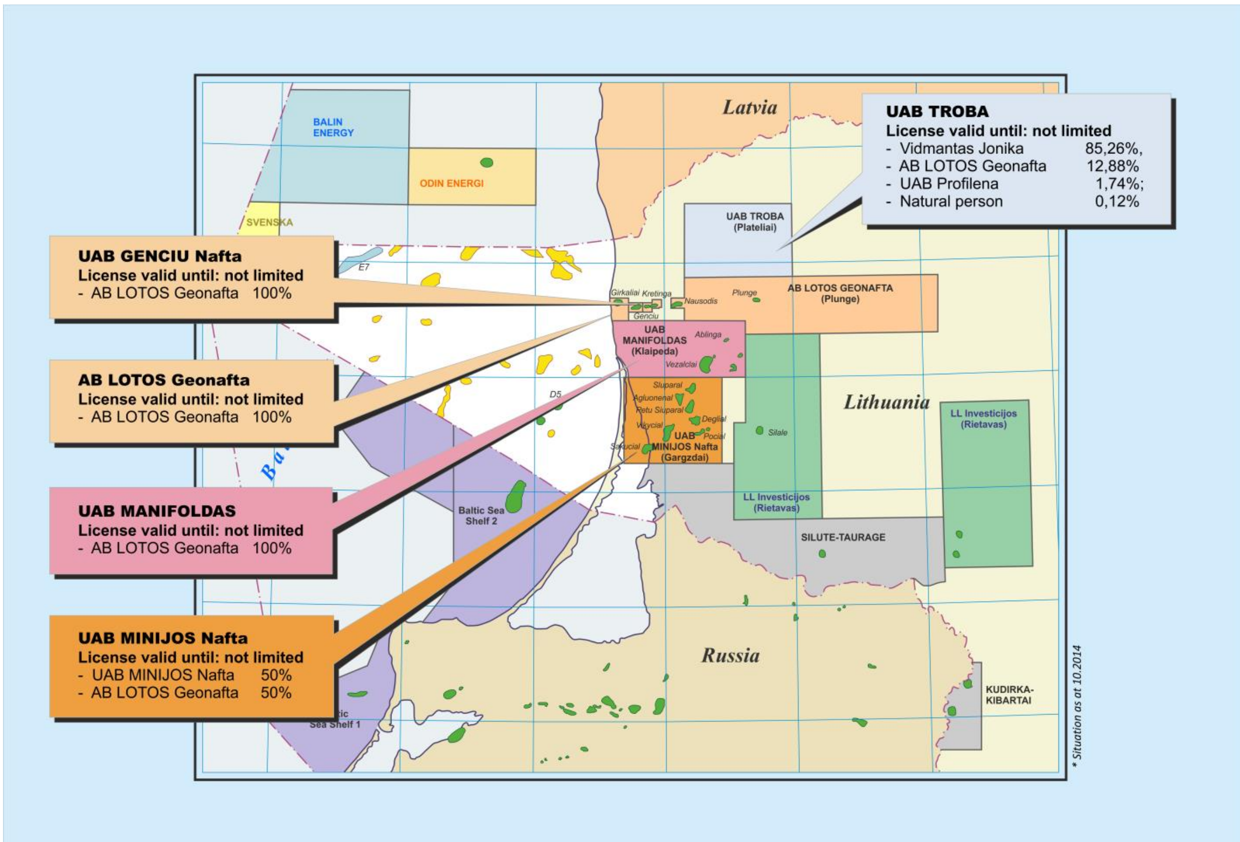


Source: LOTOS Petrobaltic in-house analysis

In Q3 2014, Lithuanian companies AB LOTOS Geonafta and UAB Genciu Nafta produced crude oil from the Girkaliai, Kretinga, Nausodis and Genciu on-shore fields. UAB Manifoldas produced oil from the Auksoras, Liziai and Veziaciai fields. Work performed on the exploration/appraisal and production licence within the **Klaipėda** block (UAB Manifoldas)**:**

- Drilling of the Vezaiciai-20 production well (the Vezaiciai field) was completed,
- Reinterpretation of seismic data was completed,
- Preparations for the drilling of the Liziai-4 production well commenced.

AB LOTOS Geonafta Group licences



Source: LOTOS Petrobaltic in-house analysis

Upstream segment's key financial data

PLNm	Q3 2014	Q2 2014	Q3 2013	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013
Revenue	**198.1**	240.1	109.5	**-17.5%**	**80.9%**
Operating profit/(loss)	**-46.9**	-483.3	7.1	**-**	**-**
Amortisation and depreciation	**87.8**	53.5	32.7	**64.1%**	**168.5%**
EBITDA	**40.9**	-429.8	39.8	**-**	**2.8%**
Adjusted EBIT*	**18.1**	71.4	7.1	**-74.6%**	**154.9%**

** Net of non-recurring events (Q3 2014: impairment of the B27-1 well in the Baltic Sea, write-off of the Zvaginiai well in Lithuania and impairment of assets related to decommissioning of an offshore oil extraction facility in the YME field following revaluation of the provision for decommissioning costs; Q2 2014: impairment loss on YME assets).*

In Q3 2014, upstream revenue was down quarter on quarter, mainly on the back of falling crude oil and gas prices and a 6.2% drop in the volume of oil and gas sold by the upstream segment, related to the schedule of deliveries of the Rozewie crude. An 80.9% year-on-year increase in the segment's revenue was primarily attributable to sales of oil and gas produced by LEPN from the Heimdal assets purchased in 2013 and to sales of the Rozewie crude, which increased in line with the delivery schedule. In Q3 2014, the upstream segment's adjusted operating result fell by 74.6% quarter on quarter and rose 154.9% year on year. The quarter-on-quarter decline in the operating result posted in Q3 2014 is mainly due to lower sales of the Rozewie and Norwegian crudes. In addition, as the crude output from the Heimdal fields grew, the depreciation/amortisation charge reflected in the segment's operating result increased by PLN 34.3m in Q3 2014 versus Q2 2014. The reported operating result was reduced due to the write-offs related to dry wells drilled in the Baltic Sea area and in Lithuania, as well as due to increase in the provision for Grupa LOTOS' future obligations related to decommissioning of the YME field production infrastructure, made as a consequence of revision of the estimated decommissioning cost by Talisman Energy, the field operator (the decommissioning is currently expected to take place in 2031). The Group revised its estimated decommissioning provision by raising it from PLN 129m to PLN 158m, at the same time increasing the amount of the decommissioning asset and concurrently charging it in full to other expenses as a one-off expense of PLN 28m in the consolidated statement of comprehensive income (for more information, see Note 6 to the consolidated financial statements for Q3 2014).

3 Downstream segment

Crude slate

Crude oil processed by the Gdańsk refinery (thousand tonnes)	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
	2,416.5	**2,378.9**	**2.398.2**	**1.6%**	**0.8%**
including:					
Urals crude	**2,375.9**	2,135.6	2.024.1	**11.3%**	**17.4%**
Rozewie crude	**28.8**	50.1	44.2	**-42.5%**	**-34.8%**
Lithuanian crude	**11.6**	20.4	15.3	**-43.1%**	**-24.2%**
Other types of crude	**0.2**	172.8	314.6	**-99.9%**	**-99.9%**

The refinery utilisation was adjusted to accommodate difficult market conditions. The capacity utilisation rate in Q3 2014 was 91.3% (up 0.5pp quarter on quarter). With its operations stable, the refinery maintained throughput of 2,416.5 thousand tonnes (+1.6% quarter on quarter).

Production structure

Total output (thousand tonnes)	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
	2,671.5	**2,581.2**	**2,627.9**	**3.5%**	**1.7%**
Gasolines	**390.4**	340.0	376.5	**14.8%**	**3.7%**
Naphtha	**56.7**	91.2	67.2	**-37.8%**	**-15.6%**
Diesel oils	**1,146.9**	1,145.9	1,242.9	**0.1%**	**-7.7%**
Light fuel oils	**50.0**	38.7	54.3	**29.2%**	**-7.9%**
Jet fuel	**204.3**	169.3	126.5	**20.7%**	**61.5%**
Heavy fuel oils	**290.3**	299.0	197.9	**-2.9%**	**46.7%**
Bitumen components	**187.7**	162.1	256.4	**15.8%**	**-26.8%**
Other*	**345.2**	335.0	306.2	**3.0%**	**12.7%**

** Other products include fuel and technical gases, sulphur, base oils, xylene fraction, LPG, bunker fuel, extracts, refinates, and slack wax.*

Sales structure

Refining products, merchandise and materials (000' tonnes)	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
	2,575.9	2,445.8	2,488.0	5.3%	3.5%
Gasolines	**406.4**	346.2	428.4	**17.4%**	**5.1%**
Naphtha	**56.7**	91.2	67.2	**-37.8%**	**-15.6%**
Diesel oils	**1,148.4**	1,143.3	1,153.2	**0.4%**	**-0.4%**
Light fuel oils	**50.9**	39.3	52.3	**29.5%**	**-2.7%**
Jet fuel	**209.5**	172.3	123.6	**21.6%**	**69.5%**
Heavy fuel oils	**296.6**	299.1	201.6	**-0.8%**	**47.1%**
Bitumens	**204.1**	150.3	260.2	**35.8%**	**-21.6%**
Other petroleum products	**203.3**	204.1	201.5	**-0.4%**	**0.9%**

Petroleum products market in Q3 2014*

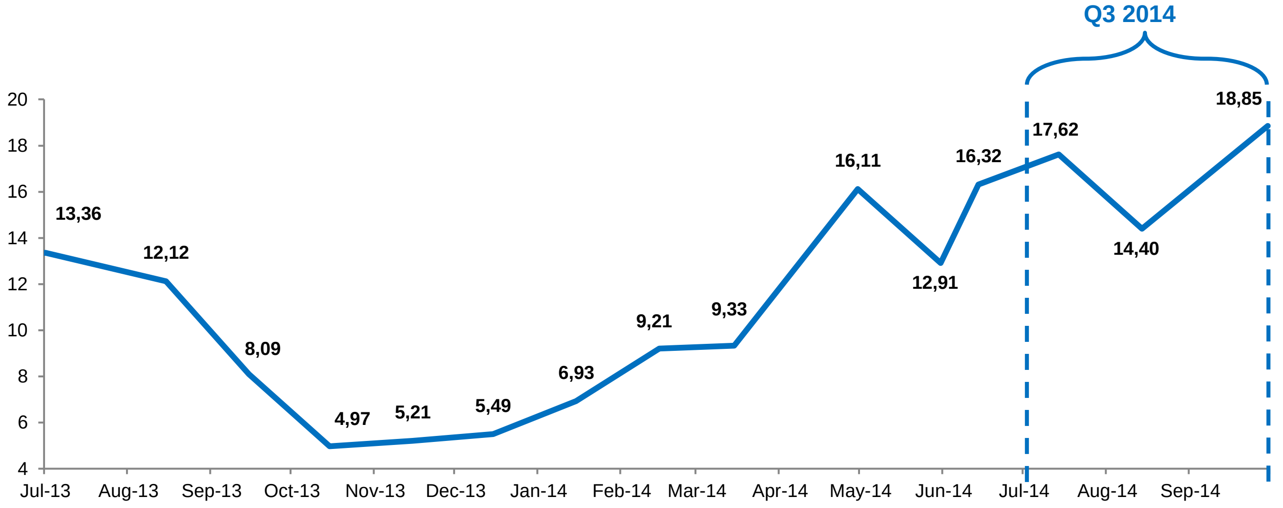
In Q3 2014, fuel consumption in Poland declined by 2.14% year on year.

Amid challenging conditions on the shrinking domestic market for liquid fuels, in the year to September 2014 the LOTOS Group's sales decreased 0.5%, with the Group's market share growing 0.5pp, to 33.5%. In this context, the LOTOS Group's goal of securing a 30% share in the overall fuel market in Poland seems a realistic prospect.

**Data by the Polish Organisation of Oil Industry and Trade (POPIHN).*

Discussed below are motor gasoline, diesel oil and heavy fuel oil, as the three primary contributors to the Company's refining margin.

Motor gasoline – average monthly crack margin, USD/bbl (July 2013–September 2014)



Source: The Company's in-house analysis based on Thomson Reuters data.

In Q3 2014, **motor gasoline** was sold at a much higher year-on-year global crack margin of USD 17.04/bbl (up 51.3% or USD 5.78/bbl).

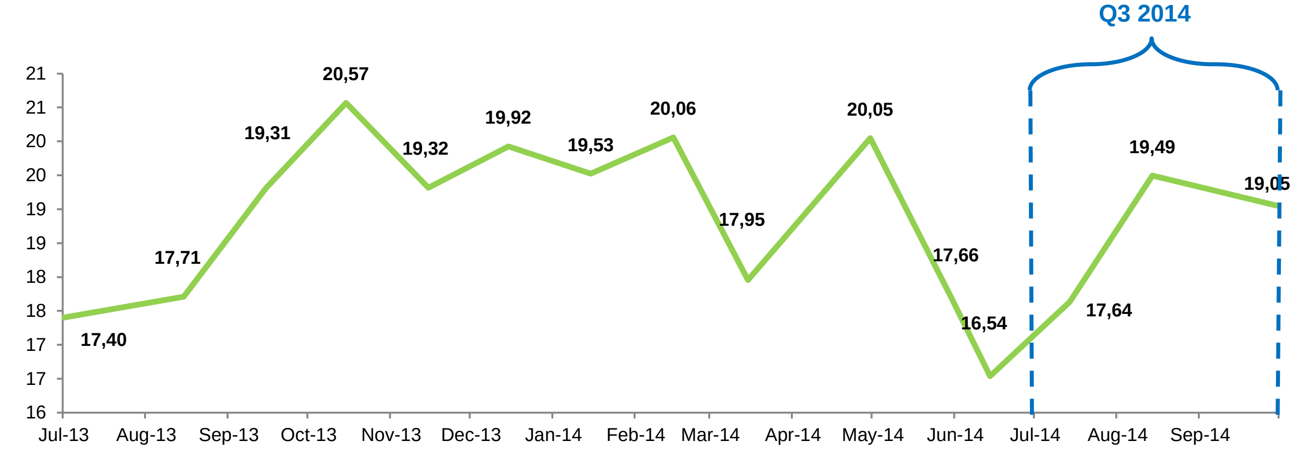
In the first nine months of 2014, the domestic demand for gasoline fell 2.6% year on year, following a downtrend in the gasoline market which has continued for the past few years, underpinned by a number of factors, including the declining competitiveness of gasolines, which are being replaced by diesel oil and LPG.

In the reporting period, the Group's share in the wholesale and retail gasoline markets increased by 3.7pp year on year, to 29.8%. A year-on-year market share expansion was recorded across all distribution channels: B2B wholesale (up 0.9pp), sales to large companies (up 2.9pp) and retail sales (up 0.9pp).

On the other hand, domestic gasoline output fell by 2,4%. Gasoline exports dropped 25.1% and the volume of gasoline imports was down 12.2%. LOTOS Group companies traded chiefly with the neighbouring countries, including Germany, Slovakia and the Czech Republic, but also with more distant European countries, such as Sweden or Denmark.

LOTOS

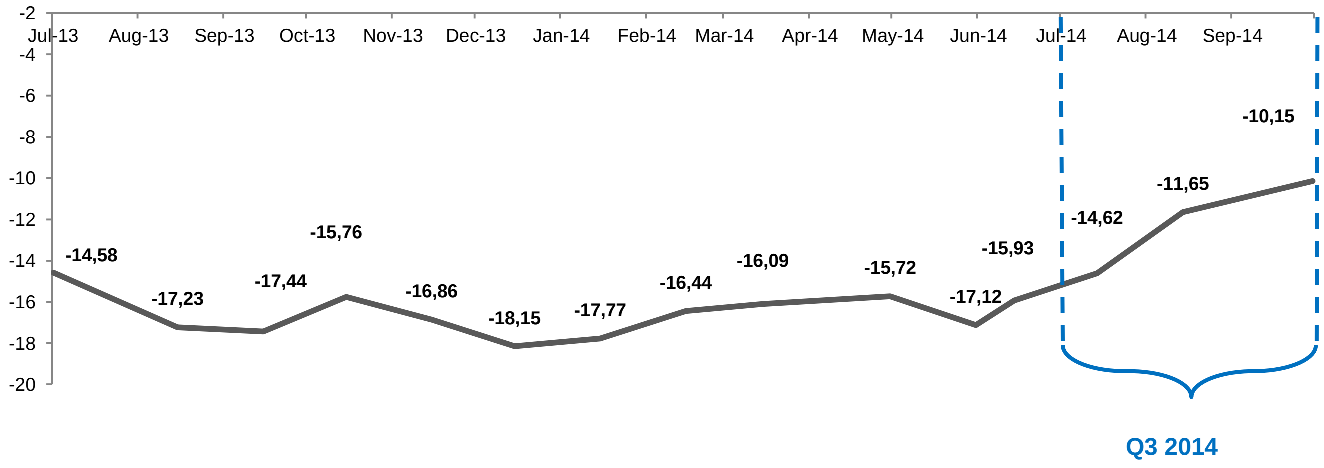
Diesel oil – average monthly crack margin, USD/bbl (July 2013–September 2014)



Source: The Company's in-house analysis based on Thomson Reuters data.

In Q3 2014, the average global crack spread for **diesel oil** rose to USD 16.30/bbl, up 9.2% or USD 1.37/bbl year on year.
In the first three quarters of 2014, domestic demand for diesel oil dipped 0.63% year on year. In the period under review, the Group's share in the diesel oil market was 34.7%, down 0.7pp year on year. A market share increase was reported in sales to large companies (up 0.2pp) and retail sales (up 0.5pp), while the B2B wholesale market share dropped 0.6pp.
In the first nine months of 2014, domestic output of diesel oil stayed flat year on year, with exports rising 35.2%, given the current oversupply of diesel fuel in Poland and the expanding grey market in diesel trading.
Imports of diesel oil to Poland were up 15.6%. The LOTOS Group did not import diesel oil. The Group's main trading partners for this product included the UK, Germany, the Czech Republic and France.

Heavy fuel oil – average monthly crack margin, USD/bbl (July 2013–September 2014)



Source: The Company's in-house analysis based on Thomson Reuters data.

In Q3 2014, the average negative margin on **heavy fuel oil** on global markets fell 25.5% year on year, offering a USD 4.17/bbl gain to producers.
In the period January−September 2014, heavy fuel oil output rose 7.1% year on year. Exports went up 15.6% and domestic consumption declined by 20.5%.

Downstream segment's key financial data

PLNm	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
Revenue	**7,480.5**	7,158.2	7,794.8	**4.5%**	**-4.0%**
Operating profit/(loss)	**92.6**	92.6	299.3	0.0%	**-69.1%**
Amortisation and depreciation	**114.3**	117.3	120.1	**-2.6%**	**-4.8%**
EBITDA	**206.9**	209.9	419.4	**-1.4%**	**-50.7%**

The downstream segment's revenue improved in Q3 2014 quarter on quarter due to higher sales volumes (up 5.3%), with the average net selling price down 0.8% on Q2 2014, to PLN 2,904 per tonne. The drop followed chiefly from lower prices of petroleum products on global markets, partly offset by a higher average quarterly USD exchange rate. The segment's revenue was down year on year on the back of a 7.3% decline in the average net selling price, led by lower market prices and a lower average quarterly USD exchange rate.
The Q3 2014 operating result of the downstream segment was affected by foreign exchange losses from operating activities of PLN 26.3m. The operating result posted for the previous quarter was also affected by exchange losses from operating activities, but they were of lower value and totalled PLN 4.2m. In Q3 2013, the segment's operating result was augmented by foreign exchange gains of PLN 63.7m, driven by the depreciating US dollar.
A 69.1% year-on-year slide in operating result was mainly attributable to the market prices of crude oil trending clearly downwards in Q3 2014, as compared with an uptrend prevailing the year before, affecting consumption valuation.

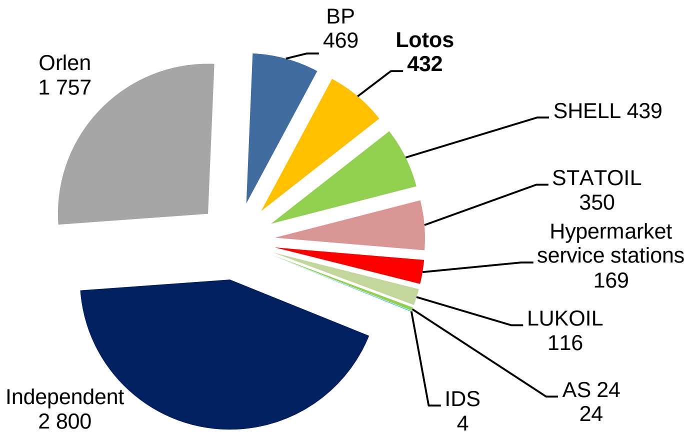
LOTOS service station network

Number of service stations in the LOTOS network at end of the period

Total	Sep 30 2014	Jun 30 2014	Sep 30 2013	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013
	432	430	416	**0.5%**	**3.8%**
CODO	**266**	265	238	**0.4%**	**11.8%**
including: LOTOS OPTIMA	**106**	106	88	0.0%	**20.5%**
DOFO	**166**	165	157	**0.6%**	**5.7%**
including: LOTOS OPTIMA	**54**	52	39	**3.8%**	**38.5%**
franchise agreements signed	**169**	169	163	0.0%	**3.7%**
DODO	**0**	0	21	**-**	**-**

As at the end of Q3 2014, the LOTOS retail chain comprised 432 stations. As part of the efforts designed to optimise the station chain, a new brand of economy stations under the trade name LOTOS OPTIMA was launched on the domestic market in 2011. As at September 30th 2014, the number of LOTOS OPTIMA stations was 160, with 33 new outlets added to the chain from the year before. In Q3 2014, two new LOTOS OPTIMA stations were added to the LOTOS chain.

Polish retail market as at September 30th 2014



Source: Polish Organisation of Oil Industry and Trade (POPiHN).

Retail segment - key financial data

'000 tonnes/PLNm	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
Sales volume	**285.9**	270.8	277.6	**5.6%**	**3.0%**
Revenue	**1,595.1**	1,509.2	1.602.6	**5.7%**	**-0.5%**
Operating profit/(loss)	**23.3**	2.7	5.5	**763.0%**	**323.6%**
Amortisation and depreciation	**16.5**	14.3	15.1	**15.4%**	**9.3%**
EBITDA	**39.8**	17.0	20.6	**134.1%**	**93.2%**

In Q3 2014, the retail segment reported operating profit of PLN 23.3m, an effect of operational optimisation. The efficiency improvement measures involved mainly the optimisation of labour costs of the CODO stations, implementation of an employee incentive scheme, introduction of an in-house catering offer throughout the chain, and efforts to acquire new fleet customers.

At the CODO and DOFO stations, sales of fuels and non-fuel products improved on average by 7% quarter on quarter. Sales volumes and unit margins also improved year on year.

4 Other business

EBIT of other business*

PLNm	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
Revenue	**6.4**	6.2	5.4	**3.2%**	**18.5%**
Operating profit/(loss)	**1.2**	1.4	1.3	**-14.3%**	**-7.7%**
Amortisation and depreciation	**2.2**	2.3	2.4	**-4.3%**	**-8.3%**
EBITDA	**3.4**	3.7	3.7	**-8.1%**	**-8.1%**

* Includes: LOTOS Park Technologiczny Sp. z o.o. w likwidacji (in liquidation), Energobaltic Sp. z o.o. and LOTOS Gaz S.A. w likwidacji (in liquidation).

5 Consolidated statement of comprehensive income

Financial highlights of the LOTOS Group

PLNm	Q3 2014	Q2 2014	Q3 2013	Q3 2014 /Q2 2014	Q3 2014 /Q3 2013
Revenue	**7,549.8**	7,199.3	7,787.5	**4.9%**	**-3.1%**
EBITDA	**283.5**	-242.4	494.9	**-**	**-42.7%**
EBIT	**79.6**	-415.0	340.2	**-**	**-76.6%**
Adjusted EBIT*	**144.6**	139.7	340.2	**3.5%**	**-57.5%**
Estimated LIFO effect**	**52.3**	-9.5	55.3	**-**	**-5.4%**
Estimated EBIT LIFO(1)	**131.9**	-424.5	395.5	**-**	**-66.6%**
Estimated adjusted EBIT LIFO(2)	**196.9**	130.2	395.5	**51.2%**	**-50.2%**
Estimated EBITDA LIFO(3)	**335.8**	-251.9	550.2	**-**	**-39.0%**

** Net of non-recurring events (Q3 2014: impairment of the B27-1 well in the Baltic Sea, write-off of the Zvaginiai well in Lithuania and impairment of assets related to decommissioning of an offshore oil extraction facility in the YME field following revaluation of the provision for decommissioning costs; Q2 2014: impairment loss on YME assets).*

*** In line with its inventory valuation policies, the LOTOS Group uses the weighted average method (“**Weighted Average Method**”) to valuate inventory changes. This method defers the impact of changes in crude oil prices on the prices of finished petroleum products. Thus, an increase in crude oil prices has a positive effect on financial performance, while a decrease adversely affects the performance. Operating results accounting for the above method of inventory changes valuation are presented in the table in the EBITDA, EBIT, and adjusted EBIT lines. In order to reflect the effect that the Weighted Average Method has in shifting the effect of fluctuations in crude oil prices in relation to finished petroleum product prices, an estimation of the inventory change valuation using an alternative method has been made by estimating the LIFO effect (”LIFO Effect”).*

The LOTOS Group calculates the LIFO Effect as follows:

a) calculations include inventories of crude oil and merchandise, as well as inventories of semi-finished products and petroleum products.
b) individual inventory layers for particular types of crude oil, merchandise, semi-finished products and products are created or used based on the comparison of the inventory balance at the beginning and at the end of each month i.e. if the ending balance of inventory is higher than its opening balance, then a new layer of inventory is created, when it is lower, then the layers created in prior periods are used, starting with the layer created the at latest.
c) to calculate the value of newly created layers, at first the unit cost for the earliest period of any given year was taken, i.e. the quotient of the carrying value of inventory of a particular types of crude oil, merchandise, semi-finished products and products and its volume at the end of the first quarter of such year. At present, the valuation of newly created layers of inventory of semi-finished products and products is based on the carrying unit cost of inventory of such semi-finished products and products at the end of the month in which the layer was created (the carrying value of inventory divided by its volume). For the calculation purposes, new layers of inventory of crude oil and merchandise are valued at the average purchase price for the given month (separately for each type of crude oil and inventory of merchandise).

LIFO Effect, estimated EBIT LIFO, estimated adjusted EBIT LIFO and estimated EBITDA LIFO are not measures compliant with IFRS nor with any other generally accepted accounting principles, including United States accounting principles (US GAAP). In addition, LIFO Effect, estimated EBIT LIFO, estimated adjusted EBIT LIFO and estimated EBITDA LIFO may not be comparable to measures used by other companies to adjust their results for effects of the method of inventory changes valuation similar to those described above.

(1) Estimated EBIT LIFO is calculated as the sum of EBIT and LIFO Effect
(2) Estimated adjusted EBIT LIFO is calculated as the sum of adjusted EBIT and LIFO Effect
(3) Estimated EBITDA LIFO is calculated as the sum of EBITDA and LIFO Effect

In Q3 2014, the LOTOS Group posted an operating profit of PLN 79.6m, being the result of the downstream segment's operating profit of PLN 92.6m, the upstream segment's operating loss of PLN 46.9m, an operating profit from other business of PLN 1.2m, plus PLN 32.7m in consolidation adjustments (mainly the realised margin on sales of the Rozewie and Lithuanian crudes being adjusted for the margin on crude stocks held by the Group). In Q3 2014, the LOTOS Group's EBIT net of one-off events was PLN 140.3m.

In Q3 2014, the weighted average method of inventory valuation applied by the LOTOS Group (in accordance with International Financial Reporting Standards), combined with falling market prices of crude oil, contributed to a PLN 52.3m decrease in EBIT. In Q2 2014 and Q3 2013, EBIT was up by PLN 9.5m and down PLN 55.3m, respectively (impact of LIFO Effect). The estimated impact of LIFO Effect in Q3 2013 was due primarily to a fall in crude inventories, related mainly to the maintenance shutdown in H1 2013 (PLN 102.8m resulted from the fall in crude inventories and lower crude prices used to calculate the LIFO Effect - i.e. the prices of crude purchased in 2007 and 2008 of USD 50-90/bbl, lower than the current purchase prices of around USD 110/bbl in Q3 2013). Had the LIFO Effect been applied to inventory valuation, the LOTOS Group's adjusted (net of one-off events) EBIT would have been PLN 196.9m in Q3 2014, PLN 130.2m in Q2 2014, and PLN 395.5m in Q3 2013.

In Q3 2014, the LOTOS Group recorded net finance loss of PLN -175.1m, with the main contributors being a PLN -51.9m negative balance of interest on debt, interest income and commissions, net foreign exchange losses of PLN -50.0m, and a PLN -72.2m loss on measurement and settlement of hedging transactions.

In Q3 2014, the effect of measurement and settlement of market risk hedging transactions at the LOTOS Group included a PLN -68.5m net loss on settlement and measurement of derivatives hedging the foreign exchange risk, a PLN -1.4m net loss on settlement and measurement of interest rate swaps (IRS) hedging the interest rate risk, a PLN -4.0m net loss on settlement and measurement of hedges of petroleum product prices, and a PLN 1.7m positive contribution from settlement and measurement of futures hedging the risk of changes in prices of CO_2 emission allowances.

Transactions used to hedge petroleum products prices as at September 30th 2014

Period	Product/commodity	Heavy fuel oil 3.5 PCT Barges FOB Rotterdam
Q4 2014	Volume (mt)	1,871
	Price range (USD/mt)	571.75 - 583
Q2 2015	Volume (mt)	2,206
	Price range (USD/mt)	567.75 - 570.5
Q3 2015	Volume (mt)	9,875
	Price range (USD/mt)	557.5 - 570.75
Q4 2015	Volume (mt)	8,294
	Price range (USD/mt)	557.5 - 570.5

Transactions used to hedge foreign exchange risk as at September 30th 2014

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	1,500,000	EUR	1.2669 - 1.2952
EUR/PLN exchange rate	Forward	9,000,000	EUR	4.1967 - 4.2138
USD/PLN exchange rate	Forward	-261,129,048	USD	3.0953 - 3.31925

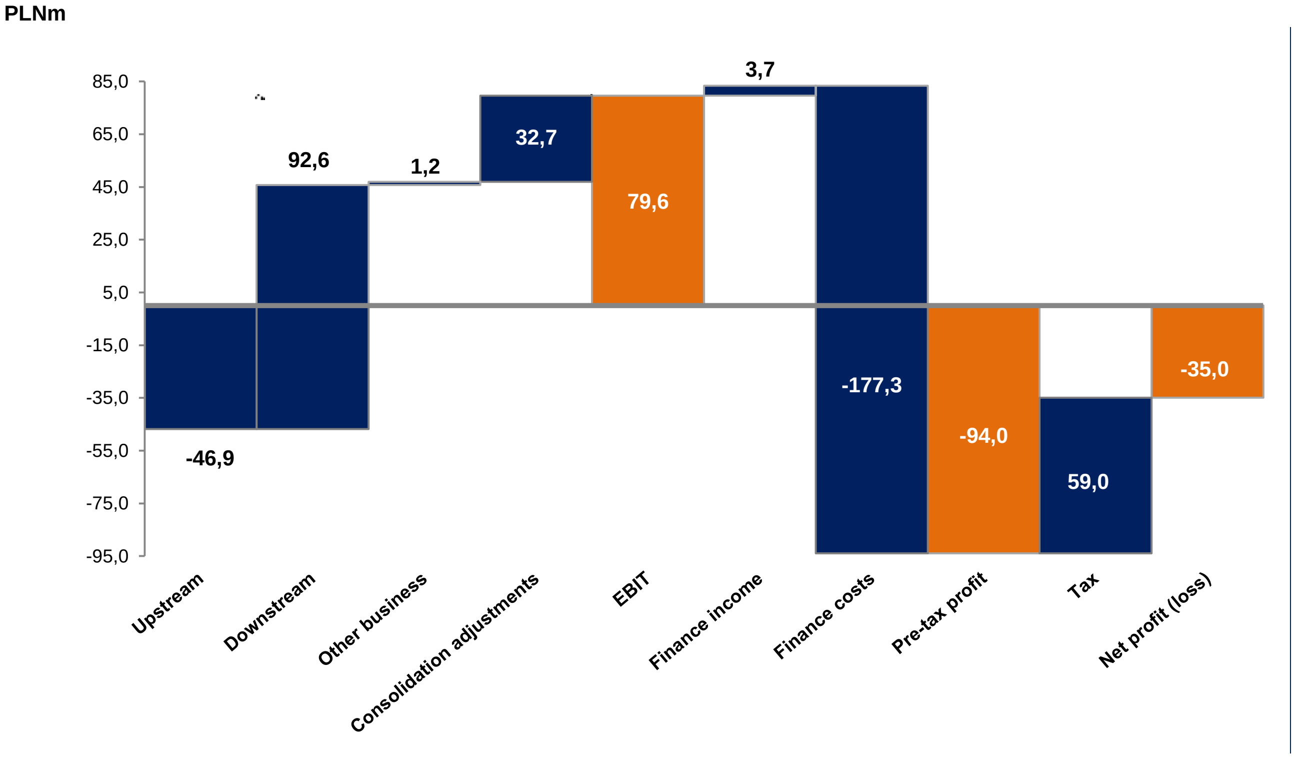
Transactions used to hedge interest rate risk as at September 30th 2014

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Jul 15 2011 to Jan 15 2015	from Jan 15 2018 to Jan 15 2019	250,000,000	USD	2.476% - 4.045%	3M LIBOR - 6M LIBOR

Futures used to hedge the risk related to the prices of carbon dioxide (CO_2) emission allowances as at September 30th 2014

Instrument	Type of instrument	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)
		2015		2016		2017		2018	
EUA	Futures	1,204,000	5.15 - 6.13	-33,000	5.57 - 5.65	12,000	6.32 - 7.91	60,000	8.03 - 8.52

LOTOS Group's consolidated performance breakdown



In Q3 2014, the LOTOS Group posted consolidated net loss of PLN -35.0m.

Net profit/(loss) of the LOTOS Group

PLNm	Q3 2014	Q2 2014	Q3 2013
Operating profit/(loss)	**79.6**	-415.0	340.2
Pre-tax profit/loss	**-94.0**	-505.9	387.3
Net profit/(loss)	**-35.0**	-122.5	337.2

6 Consolidated statement of financial position

Consolidated statement of financial position – assets

Assets (PLNm)	Sep 30 2014	Dec 31 2013	Change	%
	19,935.1	20,284.8	-349.7	-1.7%
Non-current assets	**12,007.5**	11,979.9	27.6	0.2%
Property, plant and equipment	**9,613.1**	10,009.1	-396.0	-4.0%
Goodwill	**46.7**	46.7	0.0	0.0%
Other intangible assets	**684.1**	658.8	25.3	3.8%
Equity-accounted joint ventures	**124.4**	129.8	-5.4	-4.2%
Deferred tax assets	**1,397.6**	924.5	473.1	51.2%
Other non-current assets	**141.6**	211.0	-69.4	-32.9%
Current assets	**7,925.6**	8,304.1	-378.5	-4.6%
Inventories	**4,911.2**	5,728.9	-817.7	-14.3%
Trade receivables	**2,112.1**	1,591.7	520.4	32.7%
Current tax assets	**94.1**	76.7	17.4	22.7%
Derivative financial instruments	**0.8**	73.9	-73.1	-98.9%
Other current assets	**403.4**	337.1	66.3	19.7%
Cash and cash equivalents	**404.0**	495.8	-91.8	-18.5%
Assets held for sale	**2.0**	0.8	1.2	150.0%

As at September 30th 2014, total assets of the LOTOS Group stood at PLN 19,935.1m, having decreased by PLN 349.7m in the first nine months of 2014.

Key changes in assets:

- PLN 396.0m decrease in property, plant and equipment, chiefly attributable to the impairment loss on the YME assets (see Note 6 in the interim condensed consolidated financial statements for the six months ended June 30th 2014), offset by the purchase of a drilling rig,
- PLN 473.1m increase in deferred tax assets, mainly related to the impairment of the YME assets,
- PLN 817,7m decrease in inventories, related chiefly to a lower volume of mandatory stocks,
- PLN 520.4m increase in trade receivables, mainly due to higher volumes of fuels, bitumens and gas sold in September 2014 as compared with December 2013 (chiefly by LOTOS Paliwa, LOTOS Asfalt, and LEPN) and lesser use of factoring as at the end of September 2014,
- PLN 91.8 decrease in cash and cash equivalents (chiefly in the upstream segment),
- PLN 73.1m decrease in positive valuation of derivative financial instruments (mainly forwards and currency swaps).

Consolidated statement of financial position – sources of financing

Equity and liabilities (PLNm)	Sep 30 2014	Dec 31 2013	Change	%
	19,935.1	20,284.8	-349.7	**-1.7%**
Equity	**8,721.9**	9,189.6	-467.7	**-5.1%**
Share capital	**129.9**	129.9	0.0	0.0%
Share premium	**1.311.3**	1,311.3	0.0	0.0%
Cash flow hedging reserve	**-220.7**	61.0	-281.7	**-461.8%**
Retained earnings	**7,476.9**	7,666.8	-189.9	**-2.5%**
Exchange differences on translating foreign operations	**24.3**	20.3	4.0	**19.7%**
Non-controlling interests	**0.2**	0.3	-0.1	**-33.3%**
Non-current liabilities	**5,508.3**	5,682.0	-173.7	**-3.1%**
Borrowings, other debt instruments and finance lease liabilities	**4,464.5**	4,496.2	-31.7	**-0.7%**
Derivative financial instruments	**44.5**	52.9	-8.4	**-15.9%**
Deferred tax liability	**143.2**	275.8	-132.6	**-48.1%**
Employee benefit obligations	**155.7**	151.4	4.3	**2.8%**
Other liabilities and provisions	**700.4**	705.7	-5.3	**-0.8%**
Current liabilities	**5,704.9**	5,413.2	291.7	**5.4%**
Borrowings, other debt instruments and finance lease liabilities	**2,040.2**	1,715.2	325.0	**18.9%**
Derivative financial instruments	**60.0**	21.3	38.7	**181.7%**
Trade payables	**2,172.6**	2,395.2	-222.6	**-9.3%**
Current tax liabilities	**20.1**	8.8	11.3	**128.4%**
Employee benefit obligations	**96.0**	104.0	-8.0	**-7.7%**
Other liabilities and provisions	**1,316.0**	1,168.7	147.3	**12.6%**

As at September 30th 2014, consolidated equity decreased by PLN 467.7m, with the decrease chiefly attributable to a net loss of PLN -189.9m reported for the first nine months of 2014 and PLN -281.7m in foreign exchange losses on measurement of cash flow hedges, adjusted for the tax effect and charged to reserve capital.

In in the first nine months of 2014, liabilities increased by PLN 118.0m, primarily as a result of:

- PLN 222.6m decrease in trade payables related chiefly to crude oil purchases (mainly at Grupa LOTOS S.A.),
- PLN 293.3m increase in interest-bearing borrowings, other debt instruments and finance lease liabilities, chiefly in the upstream segment, related to the financing of an offshore rig purchase,
- PLN 142.0 increase in other provisions and liabilities, chiefly as a result of a rise in liabilities to the state budget other than income tax (VAT, excise tax, fuel charge) and revaluation of the provision for future costs of decommissioning of oil facilities in the YME field, adjusted for a decrease in investment commitments,
- PLN 132.6m decrease in deferred tax liabilities (mainly at Grupa LOTOS S.A.).

As at September 30th 2014, the LOTOS Group's financial debt totalled PLN 6,504.7m, up PLN 293.3m on December 31st 2013. The ratio of financial debt (adjusted for free cash) to equity was 69.9% (up 7.8pp on December 31st 2013).

7 Consolidated statement of cash flows

Consolidated statement of cash flows

PLNm	Q3 2014	Q3 2013
Cash flows from operating activities	**575.5**	195.6
Cash flows from investing activities	**-141.6**	-107.4
Cash flows from financing activities	**-253.5**	-60.8
Change in net cash	**181.9**	7.3
Cash and cash equivalents at beginning of the period	**-269.6**	178.0
Cash and cash equivalents at end of the period	**-87.7**	185.3

As at September 30th 2014, the LOTOS Group's cash balance (including current account overdrafts) was negative at PLN 87.7m.

In Q3 2014, net cash flows from operating activities were positive at PLN 575.5m, primarily due to depreciation/amortisation expense being added back to net loss and the rate of growth in trade payables, provisions and other liabilities exceeding the rate of growth in trade receivables adjusted for a decrease in inventories and other assets.
Negative net cash flows from investing activities were mainly attributable to the expenses incurred on acquiring property, plant and equipment and other intangible assets for the upstream segment.
Net cash flows from financing activities in Q3 2014, of PLN -253.5m, chiefly comprised net repayments of borrowings and related outflows on principal and interest payments of PLN -242.9m.

8 Supplementary information

Supplementary information provided under the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009.

Pursuant to Par. 87 and Par. 83.1 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009, as amended (Dz. U. of 2009, No. 33, item 259, as amended), the Parent's Management Board hereby releases the following information:

I. Shareholders holding 5% or more of total voting rights at the General Meeting of the Parent as at this report release date

	Number of shares/voting rights equivalent to par value of shares	Share of total voting rights equivalent to percentage of share capital held
State Treasury	69,076,392	53.19%
ING OFE	6,893,079	5.31%
Other shareholders	53,903,891	41.50%
Total	**129,873,362**	**100.00%**

There were no changes in major holdings of the Parent shares after the release of the previous interim report.

II. Changes in the number of the Company shares or rights to the Company shares held by the management and supervisory staff, in accordance with the information available to the Company

	As at the date of release of the previous interim report(1)	Acquisition	Sale	Other	As at the date of release of this interim report(2)
Marek Sokołowski *Vice-President of the Management Board, Chief Operations Officer*	8,636	-	-	-	8,636
Zbigniew Paszkowicz *Vice-President of the Management Board, Chief Exploration and Production Officer*	1,000	-	-	-	1,000
Total	**9,636**				**9,636**

(1) *As at the H1 2014 report issue date, i.e. August 19th 2014*
(2) *Based on representations as at October 20th 2014, made for the purpose of the Q3 2014 report*

To the best of the Company's knowledge, other Management Board and Supervisory Board members did not hold any Company shares or rights to Company shares as at the date of release this report.

III. Material court, arbitration or administrative proceedings concerning liabilities or claims with a unit or aggregate value equal to or exceeding 10% of the Company's equity, other risks of the Parent or its subsidiaries, and material settlements under court proceedings

There are no pending court, arbitration or administrative proceedings concerning liabilities or claims with a unit or aggregate value for the LOTOS Group companies equal to or exceeding 10% of the Company's equity. Material court, arbitration or administrative proceedings and other risks concerning Grupa LOTOS S.A. or its subsidiaries, and material settlements under court proceedings are described in Note 24.1 to the interim financial statements (Q3 2014 financial report of the LOTOS Group).

IV. Information on loan sureties or guarantees issued by the Parent or its subsidiaries, or all guarantees issued jointly to one entity or its subsidiary, where the aggregate value of such sureties or guarantees represents 10% or more of the Company's equity

In the period from January 1st to September 30th 2014, Grupa LOTOS S.A. and its subsidiaries issued no loan sureties within the Group or guarantees to any other entity or its subsidiary, where the value of the sureties or guarantees in relation to LOTOS Group companies would represent 10% or more of Grupa LOTOS S.A.'s equity. Material contingent liabilities are described in Note 24.2 to the consolidated financial statements (Q3 2014 financial report of the LOTOS Group).

V. Information material for the assessment of the personnel, assets, financial standing and the financial result of the Group, and their changes, and for the assessment of the Parent's ability to fulfil its obligations

Apart from the information contained in the interim condensed consolidated financial statements and this Management's Discussion and Analysis, there is no other information material for the assessment of the personnel, assets, financial standing and the financial result of the Group, and their changes, or for the assessment of the Group's ability to fulfil its obligations.

VI. Management Board's position regarding the feasibility of meeting forecasts published earlier for a given year in the light of the results presented in this quarterly report in relation to the forecast results

Grupa LOTOS S.A.'s Management Board did not publish any forecasts concerning the Company's financial performance in 2014.

VII. Factors with a bearing on the Group's results in the next quarter or in a longer term, according to Grupa LOTOS S.A.'s assessment

Key factors which, in the Company's opinion, may affect performance in Q4 2014 include:

- Macroeconomic environment; in particular, prices of crude oil and petroleum products and the USD/PLN exchange rate, which has a bearing on the Group's financial performance as the prices of crude oil and of some products are quoted in the US dollar and Grupa LOTOS S.A. has US dollar-denominated debt,
- Changes in the supply of and demand for petroleum products in Poland and in Europe; the demand for diesel oil is expected to rise in the long run, while the demand for motor gasolines is expected to weaken; these tendencies are reflected in the strategy implemented by the LOTOS Group,
- Execution of projects in the exploration and production segment,
- Optimisation in the of production and trade to maximise the refining margin of Grupa LOTOS S.A. (higher production capacity of the Gdańsk refinery and improved production and processing flexibility following completion of the +10 Programme),
- Further consolidation of the LOTOS Group's market position, with special emphasis on the development of, and improvement of profitability in, the retail segment,

VIII. Reportable contracts with a value exceeding 10% of equity

- In the period from June 29th 2013 to January 28th 2014, Grupa LOTOS S.A. executed contracts with Statoil Group companies for an aggregate value of approximately PLN 933m, i.e. the value which meets the criteria of significant agreement (more than 10% of the equity of Grupa LOTOS S.A.). The highest-value transaction was the fixed-term aviation fuel sales contract between Grupa LOTOS S.A. and Statoil ASA of January 28th 2014 (effective until December 31st 2014), with an estimated value of approximately PLN 370m. The contract does not include any condition precedent or specify any date of events giving rise to a claim (dies a quo) or provide for any liquidated damages, and its terms and conditions do not differ from the terms and conditions commonly applied in agreements of such type.